



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 14, 2011

TO: Audit Committee

FROM: Jim Schneiderman, Chief
Audit Division

A handwritten signature in blue ink, appearing to be "JS", is written over the name "Jim Schneiderman".

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION – AUDITS OF GOLF
COURSE AND RECREATION AREA REVENUE AGREEMENTS**

On February 11, 2011, we issued a report to the Board of Supervisors summarizing the audits of ten Department of Parks and Recreation (DPR or Department) golf course and recreation area revenue agreements with nine contractors. The audits were conducted by Mayer Hoffman McCann P.C. (Mayer). Mayer determined that three of the nine contractors had underpaid the County by a total of \$20,872, and two contractors had overpaid the County by a total of \$82. Mayer also reported that five of the nine contractors had serious record-keeping deficiencies, and that the records of two of those five contractors were so deficient that Mayer was unable to determine if the contractors properly reported their gross receipts, or paid the correct rent to the County. Mayer also recommended that the rent due from one of the contractors (VICO) be recalculated.

When our report was issued to the Board, DPR indicated that they had collected the underpayments and adjusted the overpayments; obtained a corrective action plan (CAP) from each contractor with audit findings; and worked with each contractor to resolve all the audit findings.

At your request, we followed up with DPR to determine if they had taken the specific actions noted above. Our follow up disclosed that DPR has collected the underpayments and adjusted the overpayments identified in Mayer's reports. However, while DPR claimed they had taken action to address the remaining findings, we noted that many of the required actions have not been completed. Specifically:

- As of March 7, 2011, DPR had not received CAPs from four of the five contractors who had audit findings. While DPR indicated that they no longer have agreements with two of the four contractors, DPR should ensure they receive CAPs from the remaining two contractors.

- DPR has not worked with the contractors to resolve the accounting/record-keeping deficiencies. Although DPR indicated that their contract monitors do conduct monthly site visits of the contract facilities, the site visits focus on operational issues, such as cleanliness, physical hazards, liability insurance, etc. DPR management indicated that the monitors do not address fiscal issues. However, DPR is considering asking the Auditor-Controller to follow-up to ensure contractors resolve the fiscal/accounting audit issues.
- DPR's contracts do not include monetary penalties against contractors who do not comply with accounting/record-keeping requirements. Although DPR indicated that all contracts can be terminated for non-compliance, the Department has chosen not to terminate these contracts. DPR should include monetary penalties for non-compliance with accounting/record-keeping requirements in all new and amended contracts, and impose penalties, up to and including contract termination, as appropriate.
- DPR did not recalculate or collect any additional rent due from VICO. DPR should immediately recalculate the additional rent and bill VICO accordingly.

In addition to Mayer's reports on the ten agreements, there are two additional audits of DPR revenue agreements that will be issued to the Board within the next 30 days:

- Mayer audited the revenue agreements for Eaton Canyon and Altadena Golf Courses, both operated by DC Golf, for Fiscal Year 2006-07. Mayer noted that DC Golf did not pay the County all rent due under their contract. However, DC Golf claimed that the required rent did not reflect current market conditions. The County and DC Golf negotiated a settlement agreement that reduced the amount DC Golf owed, and established a repayment plan. The settlement was approved by the Board on May 18, 2010. DPR indicated that DC Golf is making its current scheduled rent payments.

Mayer also noted serious record-keeping deficiencies for both facilities. Although DPR received CAPs from DC Golf for both facilities, DPR has not worked with the contractor to resolve the accounting/record-keeping issues. As noted above, DPR management indicated that they are considering asking the Auditor-Controller to follow-up to ensure contractors resolve the fiscal/accounting audit issues.

- Simpson & Simpson, CPAs (Simpson) audited nine other revenue agreements for Fiscal Year 2007-08. Simpson noted that four of the nine contractors had underpaid the County by a total of \$34,417, and two contractors had overpaid the County by a total of \$6,574. Simpson also noted that six of the nine contractors had serious record-keeping deficiencies. We will follow-up with DPR to determine the status of the findings from Simpson's audits, including the under/over payments.

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If you have any questions or need additional information, please call me.

JLS:RGC:TK

c: Russ Guiney, Director, Department of Parks and Recreation
Wendy L. Watanabe, Auditor-Controller